

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hiawatha Community Behavioral Health Athy	County Schoolcraft
Fiscal Year End 9/30/05	Opinion Date 12/16/05	Date Audit Report Submitted to State 7/18/05	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

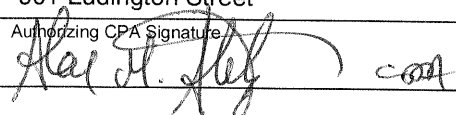
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-786-3111	
Street Address 901 Ludington Street		City Escanaba	State MI
		Zip 49829	
Authorizing CPA Signature 		Printed Name Alan M. Stotz, CPA	License Number A245934

HIAWATHA COMMUNITY BEHAVIORAL  
HEALTH AUTHORITY

FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2005

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA  
Sarah Peloza, CPA

**INDEPENDENT AUDITOR'S REPORT**

Hiawatha Community Behavioral Health Authority  
Manistique, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hiawatha Community Behavioral Health Authority, as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Hiawatha Community Behavioral Health Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hiawatha Community Behavioral Health Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

Hiawatha Community Behavioral  
Health Authority

*Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-7 and 26 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hiawatha Community Behavioral Health Authority's basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Andersen, Tackman & Company P.L.C.*  
Certified Public Accountants

December 16, 2005

# MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This section of Hiawatha Behavioral Health Authority's (HBH) annual audit report presents our discussion and analysis of HBH's financial performance during the year ended September 30, 2005. It is to be read in conjunction with HBH's audited financial statements, which follow. This letter is a requirement of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending September 30, 2005.

The Hiawatha Behavioral Health Authority is a Community Mental Health Service Provider (CMHSP) which serves Chippewa, Mackinac and Schoolcraft counties in the Upper Peninsula of Michigan by providing mental health services to developmentally disabled children and adults, severely mentally ill adults, and severely emotionally disturbed children. We also provide 24 hour mental health crisis services in our three counties (see note A from the audited financial statements for additional background).

## Overview of Financial Statements

Hiawatha Behavioral Health has two different fund types:

The **Governmental Fund** (general fund) accounts for all financial resources of HBH except those required to be accounted for in another fund.

The **Proprietary Fund** accounts for HBH internal service funds. There are three internal service funds; the fixed asset replacement fund, the risk retention fund and the compensated absences fund. The fixed asset replacement fund is designed to account for the acquisition and operation of the organization's capital assets. The risk retention fund is designed to account for a partially self-insured liability insurance program for its general fund contract with the Michigan Department of Community Health. The compensated absences fund accounts for accrued sick and vacation time liability.

## Balance Sheet

**Total Assets** for HBH decreased \$841,760 (\$9,138,617 less \$9,980,377). These assets are made up of Governmental Fund total assets which decreased \$198,484 (\$2,065,286 less \$2,263,770) and Proprietary Fund total assets which decreased \$366,388 (\$7,355,745 less \$7,722,133). The "Due To / Due From" accounts for transfers between the governmental fund and the proprietary fund amount to \$282,414 (-) current year and

\$5,526 (+) prior year. These cancel each other when brought forward to the overall balance sheet. The change in our total assets is primarily due to the utilization of the General Fund Risk Retention Fund in the amount of \$183,138 and the transfer of the Medicaid Risk Retention Fund to Northcare in the amount of \$739,933.

**Total Liabilities** for HBH decreased \$94,306 (\$4,840,752 less \$4,935,058) primarily due to our continued payment on debt (vehicles and buildings). These liabilities are made up of Governmental Fund total liabilities which decreased \$356,842 (\$937,117 less \$1,293,959) and Proprietary Fund total liabilities which increased \$539,424 (\$4,186,049 less \$3,646,625). The same "Due To / Due From" above applies here.

Proprietary Fund liabilities contain current liabilities and long-term liabilities. Current liabilities increased \$280,334 (\$344,735 less \$64,401) and long-term liabilities increased \$259,090 (\$3,841,314 less \$3,582,224).

**Net Assets** for HBH decreased \$747,454 (\$4,297,865 less \$5,045,319). This is simply a function of the changes with total assets and total liabilities discussed above.

The organization's balance sheet is also reconciled to show net assets equal to the combination of the **Fund Balance** from the governmental fund (which increased \$158,358 with a balance at 9/30/05 of \$1,128,169) and the organization's **Internal Service Funds** from the proprietary fund (which decreased \$905,812 with a balance at 9/30/05 of \$3,169,696). This is shown on page 6 of the audited financial statements. As a matter of perspective, though our fund balance appears healthy, it would only operate our agency for approximately 3.79 weeks ( $\$1,128,169 / \$15,459,696$  (FY 2006 budgeted expenditures) x 52 weeks per year).

## Income Statement

### Revenues Compared to Prior Year

Our revenues for fiscal year 2005 were \$15,522,790, an increase of \$954,445 over last fiscal year's \$14,568,345 figure. There are three main areas where trends should be discussed.

**Department of Community Health (DCH)** General Funds (GF) revenue line item was \$2,158,651 for FY 2004 and increased \$313,779 to \$2,472,430 for FY 2005. We experienced high state inpatient utilization for the year which in part caused us to "overspend" our GF allocation. We were able to use \$100,328 in prior year carryforward funds. We also exceeded the general fund risk maximum (7.5%) which required the State to provide us \$157,827 in additional GF funds. Though we received a modest increase in our original State GF for FY 2005, the bulk of the increase had to do with our over utilization of GF funding.

**Medicaid** revenue increased \$596,305 (\$11,357,765 less \$10,461,938). This is due to our over expenditure of Medicaid dollars. We utilized \$167,561 of our Medicaid carryforward funds and also required an additional allocation of \$336,108 from Northcare, the holder of the regional Medicaid contract with the State of Michigan. We experienced higher demand in our community inpatient utilization and also our residential beds. We experienced a spike in utilization in these areas. We had established a Medicaid risk fund for just these situations and had the fund been available, it would have been applied to cover this utilization risk. However, with Northcare having the regional contract for Medicaid with the State, this fund transferred to Northcare. When we over expended, Northcare had funds available from other contract CMHs. Northcare is responsible for the region, therefore, the funds from the other contract CMHs were "diverted" to us.

**Block Grants** were down \$222,825. There has been a general downturn in block grant availability through MDCH.

**Adult Benefit Waiver** was down \$61,190. This is due to the state cutting back on funding for the program through temporary closures of enrollments.

**Child Model Waiver** was down \$63, 494 due to a couple consumers aging out of the program which only covers individuals up to age 18.

**Third Party Insurance** revenue increased \$40,073 due to increased utilization by individuals with insurance coverage.

#### **Revenues Compared to Budget (page 26)**

**Department of Community Health** (General Funds) was over budget \$168,873. This is due to over expending our state allocation due primarily to state inpatient costs, both state on community facilities for the year. This over expenditure required us not only to utilize our prior year GF carryforward, but also to obtain additional state funds per our contract with the state as we entered into the GF risk corridor.

**Medicaid** was over budget \$299,522. This was primarily due to high utilization of community inpatient services and residential services. This required an additional allocation from Northcare, the holder of the regional contract with the state.

**Medicare** was over budget by \$47,455. This was due to increased utilization of our services by Medicare recipients later in the fiscal year after the final budget had been approved.

**Third Party** was over budget by \$42,373. This is similar to Medicare above.



## **Expenditures Compared to Prior Year**

Our expenditures for fiscal year 2005 were \$15,547,570, an increase of \$1,006,240 over last fiscal year's \$14,541,330 figure. There are numerous areas to be discussed.

**Health Insurance** increased \$186,664. This is a 18% increase. Some of this can be explained through rising health care costs, but our overall rates only increased about 8%. This past year we noticed a number of people taking our insurance for the first time due to their copays and deductibles on their spouse's insurance going up. It no longer made sense financially for them to take our in lieu of health insurance payment amount, so they chose to be double covered. We have taken steps in FY 2006 to address this (employee participation in health care premiums).

**Retirement** increased \$158,633. This was due to a recent change in our retirement agreements with our unions impacting our actuarial numbers. Also, financial markets had performed poorly for a few years which also impacted our actuarial numbers.

**Operating Expenses** increased \$99,497 due to us combining two line-items this past year. Operating expenses now also contains office supplies.

**Liability Insurance** shows a decrease of \$96,169. This appears to be a reclassification on the FY 2005 audit report. From our general ledger comparison of the account number for the two year, there was little difference.

**Utilities/Telephone** increased \$43,882. This is due to two factors. Our line charges increased substantially due to the increased utilization of our telemedicine services. Also, energy costs in general increased dramatically this past year.

**Inpatient** increased \$261,683. This was due to a spike in demand. We are taking steps to create additional options for this level of care.

**Residential** increased \$223,946. This is related to our efforts to reduce our inpatient costs. We have moved individuals from the hospitals, particularly state hospitals, to residential settings. Therefore, this is also a spike in demand.

**Rental of Agency Assets** increased \$69,999. This is due to increased vehicle costs. The IRS rate increased during the year. This is the rate we charge for the usage of our vehicles.

## **Expenditures Compared to Budget (page 26-27)**

**Health Insurance** was over budget \$81,880 due to employees who had been receiving the in lieu of health insurance amount changing to take our insurance in the last part of the year. We were too aggressive in reducing our budget for this line item with our mid-year amendment.

**Retirement** was over budget \$52,938 as a result of new additions to the MERS defined benefit plans being adopted by the Board of Directors for staff.

**Personnel/Fringe Benefits** show an under expenditure of \$46,514. When the budget amendment was completed, the change was posted to the roll-up account rather than to all accounts.

**Operating Expenses** is over \$133,756. This seems to be a classification difference with the auditor's reconciliation of the amended budget. Our final financial statements show we exceeded our budget by only \$16,479.

**Insurance – Liability and Other** was under budget \$89,530. This is an error in budgeting as it should have been part of the internal service fund, not our regular budget.

**Inpatient** was over budget \$252,330. When establishing the amended budget we believed our utilization of inpatient would decrease in the last part of the year. It actually increased.

**Residential** is shown with two separate line items. One was over budget \$241,127 and the other was under budget \$189,276. There appears to be a classification issue and the two should be reviewed together.

**Rental of Agency Assets** was over budget \$76,166 due to increased vehicle costs.

**Ancillary Medical** was over \$32,889 due to increased Medicaid type 10 medication administrations taking place in the last part of the year.

## **Preparations for the Future**

HBH has prepared itself for the future well as an entity highly dependant on public funds is able to.

**Assets** – HBH's assets dropped during FY 2005 due to the utilization of the General Fund Risk Retention fund and the transfer of the Medicaid Risk Retention fund as mentioned earlier. HBH continues to operate its fixed asset replacement fund which enables the organization to purchase technology, vehicles, equipment and maintain its buildings. This allows HBH to carry out its programs with less disruption due to funding waves.

**Fund Balance** - As discussed above, though HBH's fund balance appears healthy with a balance of \$1,128,169, when viewed in perspective this would only allow the organization to operate for 3.79 weeks should all other revenues cease to exist. Our auditors have recommended we have a fund balance of ten to fifteen percent of our annual budget. This would be from \$1,545,970 to \$2,318,954 based on our FY 2006 budget. With revenue uncertainties we may need to utilize our fund balance in the near

future (\$82,651 of our fund balance was pledged as part of revenues in HBH's budget for FY 2006). Though we have been adding to our fund balance each year, we are well below the recommended levels.

**Revenues** – We are very dependant on public funds. Medicaid was approximately 73.2% of our revenue for FY 2005. General Funds were approximately 14.8% of our revenue for FY 2005. There are a couple revenue trends worth mention. The State is continuing its effort to “convert” General Fund dollars to Medicaid to garner additional Federal participation. This may lead to a problem with our mix of Medicaid/GF funding. Also, the State continues to utilize general fund dollars from CMHCs to fund new state medical insurance programs. On the up side, it appears the State of Michigan's economy is slowly improving. The State has not cut our GF funding thus far. Governor Granholm has been an advocate for mental health in our state and has resisted cutting funding for “our state's most vulnerable citizens”. But unless the state's economy continues to improve, our GF funding will be reduced in the future. We continue to seek out grants and other revenue sources, but with 88% of our budget essentially coming from the State, it is extremely difficult to sufficiently diversify our revenues.

There seems to be an issue looming with our Medicaid regional allocation. Discussion has begun on the equitability of the distribution of Medicaid funds at the Northcare level. Medicaid funding was supposed to be based on the number of individuals in your area and their classification. There may be discrepancies between CMHs in our region. This issue is very political, but it is our intent to bring it forward with Northcare and our partner CMHs.

There are a number of factors in our favor when it comes to our contracts with the State. The Medicaid contract between the State and Center for Medicare/Medicaid Services (Federal) is under a waiver which requires the State to have certified providers to deliver mental health services in the communities. We are the only certified provider in our three counties. The cost to obtain certification is a significant barrier to entry for other organizations. We also have been serving our counties since the 1960's. We “know the territory”.

**Expenditures** - We continually monitor expenditures. Our salary and fringe benefit packages are compared against our peers through state and local surveys. We continue to negotiate contracts with our various providers to keep costs in check, particularly in the high cost areas of psychiatric hospitalizations and long-term consumer residential care. A number of years ago we established internal service funds for equipment, technology, buildings and vehicles. This enables us to access the necessary tools to carry out our services.

We have been able to keep up with State requirements on data through the use of technology and are preparing to implement a computerized clinical record which will allow us to better serve our consumers. In FY 2006 we were able to eliminate all rental payments from our expenditures. It was a long-term goal of our Board of Directors to build equity rather than to continue to make exorbitant rental payments. We have

reduced our costs in this area. These long-term approaches will greatly increase our ability to serve our consumers in the future.

## **Our Horizon**

Things look very positive for the future of HBH. We have positioned ourselves to be a cutting edge provider of services through our use of psychopharmacology, person centered planning, utilization management protocols and other clinical processes. We are using technology to further enhance our ability to deliver these services and have worked to put ourselves in financial position to remain strong as a service provider. There will always be areas beyond our control such as Federal/State/Local budget shortfalls, political pressures and changes dictated to us by payors to name a few. All in all, the future for HBH looks very positive.

## **Contacting Hiawatha Behavioral Health Authority's Financial Management**

This financial report is designed to provide citizens, taxpayers, consumers, board members, staff, creditors and other interested parties with a general overview of HBH's finances and to demonstrate HBH's accountability for the revenues received and expenditures incurred. If you have any questions regarding this report or need additional information, please contact HBH's Controller at 125 North Lake Street, Manistique, MI 49854.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and equivalents:	
On hand	\$ 3,020
In bank - Restricted	322,751
In bank - Unrestricted	1,338,924
Receivables	297,556
Due from state	224,344
Due from NorthCare	357,321
Prepaid expenses	<u>169,240</u>
TOTAL CURRENT ASSETS	<u>2,713,156</u>
Noncurrent assets:	
Fixed assets	8,581,627
Accumulated depreciation	<u>(2,156,166)</u>
NET NONCURRENT ASSETS	<u>6,425,461</u>
TOTAL ASSETS	<u><u>\$ 9,138,617</u></u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 412,409
Accrued payroll and fringes	230,001
Accrued compensated absences	322,751
Due to community hospitals	129,158
Due to state	138,426
Due to NorthCare	20,355
Deferred revenue	1,583
Current maturities on notes payable	<u>67,506</u>
TOTAL CURRENT LIABILITIES	<u>1,322,189</u>
Noncurrent liabilities:	
Notes payable	3,586,069
Less: Current maturities	<u>(67,506)</u>
NET NONCURRENT LIABILITIES	<u>3,518,563</u>
TOTAL LIABILITIES	<u><u>\$ 4,840,752</u></u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 2,839,392
Unrestricted - General	1,128,169
- Risk Retention	5,185
- Fixed Asset replacement	<u>325,119</u>
	<u><u>\$ 4,297,865</u></u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended September 30, 2005

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>	
Functions/Programs:					
Governmental activities:					
Community services	\$16,064,547	\$ 11,965,835	\$3,480,859	\$ -	\$ (617,853)
Interest on long-term debt	<u>246,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(246,952)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$16,311,499</u>	<u>\$ 11,965,835</u>	<u>\$3,480,859</u>	<u>\$ -</u>	<u>(864,805)</u>
General revenues:					
Unrestricted investment earnings					82,231
Unrestricted contributions					3,373
Miscellaneous					<u>31,747</u>
TOTAL GENERAL REVENUES					<u>117,351</u>
Changes in net assets					(747,454)
Net assets, beginning of year					<u>5,045,319</u>
NET ASSETS, END OF YEAR					<u>\$ 4,297,865</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND  
BALANCE SHEET

September 30, 2005

	<u>General</u>
<u>ASSETS</u>	
Assets:	
Cash:	
On hand	\$ 3,020
In bank - Unrestricted	736,576
Receivables	297,556
Due from other funds	277,229
Due from other governmental agencies:	
State	224,344
Due from NorthCare	357,321
Prepaid expenditures	<u>169,240</u>
 TOTAL ASSETS	 <u>\$ 2,065,286</u>
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts payable	\$ 412,409
Accrued payroll and fringes	230,001
Due to community hospitals	129,158
Due to other funds	5,185
Due to governmental agencies:	
State	138,426
Due to NorthCare	20,355
Deferred revenue	<u>1,583</u>
 TOTAL LIABILITIES	 937,117
 Fund equity:	
Fund balance	<u>1,128,169</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 2,065,286</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2005

Total fund balance for the governmental fund \$ 1,128,169

Total net assets reported for governmental activities  
in the statement of net assets is different because:

Internal service funds are used by the Authority to  
charge asset and risk costs to the governmental fund.  
The assets and liabilities of the internal service  
funds are included in the governmental activities  
in the Statement of Net Assets

3,169,696

Total net assets of governmental activities \$ 4,297,865

See accompanying notes to financial statements.



HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE

For the year ended September 30, 2005

	<u>General Fund</u>
REVENUES:	
Federal sources	\$ 247,292
State sources	2,683,903
Local sources	287,234
Charges for service	11,965,835
Other sources	<u>338,526</u>
 TOTAL REVENUES	 15,522,790
EXPENDITURES:	
Community services	<u>15,547,570</u>
 EXCESS REVENUES (EXPENDITURES)	 (24,780)
OTHER FINANCING SOURCES:	
Operating transfer in	<u>183,138</u>
 NET CHANGE IN FUND BALANCE	 158,358
Fund balance, beginning of year	<u>969,811</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 1,128,169</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended September 30, 2005

Net changes in fund balance - governmental fund	\$ 158,358
The change in net assets reported for governmental activities in the statement of activities is different because:	
Internal service funds are used by the Authority to charge asset and risk costs to the governmental fund. This is the net revenue of the internal service funds that is reported with the governmental activities.	<u>(905,812)</u>
Changes in net assets of governmental activities.	<u>\$ (747,454)</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS

September 30, 2005

	<u>Internal Service Funds</u>
ASSETS:	
Current assets:	
Cash and equivalents - Restricted	\$ 322,751
Cash and equivalents - Unrestricted	602,348
Due from other funds	<u>5,185</u>
TOTAL CURRENT ASSETS	930,284
Fixed assets, net of \$2,156,166 accumulated depreciation	<u>6,425,461</u>
TOTAL ASSETS	<u>\$ 7,355,745</u>
LIABILITIES AND NET ASSETS:	
Current liabilities:	
Current maturities on notes payable	\$ 67,506
Due to General Fund	<u>277,229</u>
TOTAL CURRENT LIABILITIES	<u>344,735</u>
Long-term liabilities:	
Compensated absences	322,751
Notes payable	3,586,069
Less: Current maturities	<u>(67,506)</u>
NET LONG-TERM LIABILITIES	<u>3,841,314</u>
TOTAL LIABILITIES	<u>4,186,049</u>
Net assets:	
Invested in capital assets, net of related debt	2,839,392
Unrestricted	<u>330,304</u>
TOTAL NET ASSETS	<u>3,169,696</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,355,745</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS

For the year ended September 30, 2005

	<u>Internal Service Funds</u>
OPERATING REVENUES:	
Asset rental	\$ 988,166
OPERATING EXPENSES:	
Building repairs and maintenance	87,530
Building supplies	5,852
Vehicle repairs and maintenance	39,681
Vehicle operating expenses	61,497
Insurance	89,343
Equipment repairs and maintenance	45,916
Provision for depreciation	434,419
Miscellaneous	972
	<u>765,210</u>
TOTAL OPERATING EXPENSES	<u>765,210</u>
	<u>222,956</u>
OPERATING INCOME	<u>222,956</u>
NON-OPERATING REVENUES (EXPENSES):	
Reimbursements	14,879
Interest income	26,376
Interest expense	(246,952)
Transfer to NorthCare	(739,933)
Transfer to General Fund	(183,138)
	<u>(1,128,768)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(1,128,768)</u>
	<u>(905,812)</u>
NET LOSS	<u>(905,812)</u>
Net assets, beginning of year	<u>4,075,508</u>
NET ASSETS, END OF YEAR	<u>\$ 3,169,696</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

For the year ended September 30, 2005

	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for rent and services	\$ 1,265,736
Cash payments to suppliers for goods and services	<u>(330,791)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>934,945</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Loan payments	(307,508)
Acquisition & construction of fixed assets	(236,430)
Capital reimbursement received	<u>14,879</u>
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(529,059)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfer to General Fund	(183,138)
Transfer to NorthCare	<u>(739,933)</u>
NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES	<u>(923,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	<u>26,376</u>
NET CASH INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(490,809)
Cash and equivalents, beginning of year	<u>1,415,908</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 925,099</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 222,956
Depreciation	434,419
(Increase) decrease in interfund receivable	341
Increase (decrease) in interfund payable	<u>277,229</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 934,945</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hiawatha Community Behavioral Health Authority conform to generally accepted accounting principles as applicable to mental health authorities. The following is a summary of the more significant policies:

- (1) Background - The Hiawatha Community Behavioral Health Authority was formed as a merger of the Schoolcraft County Community Mental Health Services Board and the Eastern Upper Peninsula Mental Health Board. This merger was effective October 1, 1997. The Hiawatha Community Behavioral Health Authority is organized as an authority as provided for in Section 330.1205 of the Mental Health Code, Public Act 258 of 1974. In accordance with the agreement each previous entity transferred all existing assets and contracts to the new authority.

The Hiawatha Community Behavioral Health Authority provides a wide variety of services to the mentally ill and developmentally disabled in the Counties of Chippewa, Mackinac and Schoolcraft. The Hiawatha Community Behavioral Health Authority's Board of Directors are appointed by the respective County boards of commissioners, and consists of four members from each County.

- (2) Reporting Entity - Because the Hiawatha Community Behavioral Health Authority is a separate authority under the Mental Health Code and is governed by a board composed of members from each of the three counties it serves, it has been defined as a jointly governed organization under the provisions of GASB Statement 14 as amended by GASB 39. No County board has responsibility over the Hiawatha Community Behavioral Health Authority nor does any County board have an on-going financial interest in the Authority as defined by GASB Statement 14. As such, the Authority is not a component unit of any of the three Counties it serves.

- (3) Basis of Presentation - The Authority adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, which require the financial statement presentation as described below.

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the Authority as a whole. They include all funds of the Authority except for the fiduciary funds.

Fund Financial Statements - The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and enterprise categories. The General Fund is always considered a major fund and the remaining funds of the Authority are considered major if they

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

meet the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The Authority has only one major fund based on the above criteria, and that is the General Fund.

The funds of the Authority are described below:

**GOVERNMENTAL FUND TYPES**

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

**PROPRIETARY FUND TYPE**

Internal Service Funds - Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the Authority, on a cost-reimbursement or estimate of cost basis. The Risk Retention Fund is an Internal Service Fund designed to account for a partially self-insured liability insurance program. The Fixed Asset Replacement Fund is an internal service fund designed to account for the acquisition and operation of the Agency's capital assets. The Compensated Absence Fund is designed to record the liability and activity for accrued compensated absences.

- (4) Basis of Accounting - Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority maintains its accounting records for all funds on the accrual basis of accounting. Under the accrual basis, revenues are recorded when they are earned, and expenditures are recognized when incurred.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (5) Fixed Assets - All fixed assets owned by the Authority are recorded in the Fixed Asset Replacement Fund. These assets were recorded at cost or fair market value at date of gift. Provisions for depreciation of fixed assets are computed on the straight-line method over the estimated useful lives of the assets.

The range of estimated useful lives, by class, is as follows:

Buildings	30-40 years
Equipment	7 years
Vehicles	5 years
Technology equipment	5-10 years

- (6) Cash and Equivalents - The Authority's cash and equivalents consist of cash on hand, demand deposits and short-term investments in certificates of deposit.
- (7) Deferred Revenues - The Authority has recorded as deferred revenues cash that has been received prior to it being earned.
- (8) Equity Classification

Government-wide financial statements - Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - This component consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets - This component consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements - Governmental fund equity is classified as fund balance.

- (9) Revenues - Government-wide Financial Statements - In the government-wide Statement of Activities revenues are segregated by activity (governmental or business type) and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grant and contributions. General revenues include all revenues that do not meet the criteria of program revenues and include revenues such as



NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

unrestricted contributions and interest earnings.

Fund Financial Statements - In the governmental fund statements revenues are reported by source, such as federal, state and local sources. Revenues consist of general-purpose revenues and restricted revenues. General-purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available only for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general-purpose and restricted revenues are available for use, it is the Authority's policy to use restricted resources first.

- (10) Expenses/Expenditures - Government-wide Financial Statements - In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business type) and are classified by function.

Fund Financial Statements - In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and non-operating and are further classified by function, such as salaries, supplies and contracted services.

- (11) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH

Cash balances are invested, to the extent available, in bank savings, checking and certificate of deposit accounts and other authorized investments. Earnings from these investments are recorded in the individual funds as operating revenue.

The composition of cash as reported on the Statement of Net Assets is presented below:

Imprest Cash	\$ 3,020
Certificates of deposit	390,292
Checking and savings account deposits	<u>1,271,383</u>
	<u>\$1,664,695</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH (continued)

Statutes authorize the Authority to deposit and invest in the following:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - i) The purchase of securities on a when-issued or delayed delivery basis.
  - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii) The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. Investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH (continued)

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Custodial Credit Risk - All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority. The risk disclosures for the Authority's cash deposits are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 590,893	\$ 590,893
Uninsured	<u>1,478,314</u>	<u>1,070,782</u>
TOTAL	<u>\$2,069,207</u>	<u>\$1,661,675</u>

Interest Rate Risk - The Authority's investment policy follows state law with respect to investment maturity. At present none of the Authority's investments carry long-term maturity dates, consequently there is no significant interest rate risk.

NOTE C - FIXED ASSETS

The composition and changes in fixed assets are as follows:

	<u>Balance 09/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/05</u>
Buildings	\$6,083,155	\$ 107,049	\$ -	\$6,190,204
Equipment	471,452	26,288	-	497,740
Vehicles	734,058	55,497	14,095	775,460
Technology equipment	<u>1,072,265</u>	<u>48,568</u>	<u>2,610</u>	<u>1,118,223</u>
	8,360,930	237,402	16,705	8,581,627
Accumulated depreciation	<u>(1,737,480)</u>	<u>(434,419)</u>	<u>15,733</u>	<u>(2,156,166)</u>
	<u>\$6,623,450</u>	<u>\$ (197,017)</u>	<u>\$ 972</u>	<u>\$6,425,461</u>

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D - RECEIVABLES

Detail of the total receivables at September 30, 2005 is as follows:

Third party insurance	\$ 37,359
Private pay	18,569
Medicaid CMWII	46,882
Medicaid	20,327
Substance abuse	12,500
County appropriation	25,850
UPCAP Alzheimers	1,208
Medicare	105,683
Residential	3,358
Other	<u>25,820</u>
	<u>\$ 297,556</u>

If the receivable is deemed uncollectible in a subsequent time period, the receivable and the corresponding revenue are eliminated from the accounts. An allowance for uncollectible accounts has not been established. For third party and Medicare receivables an estimated uncollectible percentage has been assigned and these receivables have been reduced by this percentage using the direct write-off method.

NOTE E - INTERFUND RECEIVABLE AND PAYABLE

Individual fund interfund receivable and payable balances at September 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Risk Retention Fund	\$ 5,185	General Fund	\$ 5,185
General Fund	<u>277,229</u>	Fixed Asset Replacement Fund	<u>277,229</u>
	<u>\$ 282,414</u>		<u>\$ 282,414</u>

NOTE F - DUE FROM GOVERNMENTAL AGENCIES - STATE

Detail of the "Due from governmental agencies - state" at September 30, 2005 is as follows:

General Fund - FY05	\$ 157,827
MRS	896
Vocational	4,781
OBRA	4,783
Block Grants	25,974
Other	<u>30,083</u>
TOTAL	<u>\$ 224,344</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE G - DUE FROM NORTHCARE**

The \$357,321 listed as due from NorthCare as of September 30, 2005, represents Medicaid funding spent in fiscal year 2005 and not yet received by the Authority.

**NOTE H - RETIREMENT PLAN**

A. Plan Description - The Authority participates in two retirement plans. The first plan is a defined contribution plan that was set up as the social security alternative. This plan has a 6.2 percent employer and 6.2 percent employee contribution with immediate vesting. The covered employees under this plan were the employees covered by the MERS retirement program (described later in this footnote) at the time of the vote to stay out of the social security program. All other employees not covered by the MERS retirement program were not eligible for this vote and are still covered under social security. The amount that the Authority contributed to this plan in the fiscal year ended September 30, 2005 was \$303,935.

The second plan maintained by the Authority is administered through the Municipal Employee's Retirement System (MERS). This plan is a defined benefit retirement plan with six divisions.

The members of the six divisions have the following benefits under MERS:

<u>Division</u>	<u>Benefit</u>	<u>Normal Retire- ment Age</u>	<u>V</u>	<u>F</u>	<u>E</u>	<u>FAC</u>	<u>Member Contri- bution</u>
Chippewa/Mackinac	B-2	60	V-10	F55(20)	-	3	2.0%
Schoolcraft	B-2	60	V-6	F55(20)	-	5	0.0%
Non-union	B-3(80%)	60	V-6	F55(20)	E-2(2.5%)	3	1.0%
Union/Para	B-3(80%)	60	V-6	F55(20)	-	3	1.0%
Professional	B-3(80%)	60	V-6	F55(20)	-	3	1.0%
CEO	B-4(80%)	60	V-6	F55(20)	E-2(2.5%)	3	1.0%

The plan covers substantially all full-time employees. MERS is an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for Michigan Municipal Employees.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - RETIREMENT PLAN (continued)

B. Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional salary increases of 0.00% to 8.4% per year, depending on age, attributable to merit and longevity. All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$1,009,440
Terminated employees not yet receiving benefits	1,011,226
Non-vested terminated employees	35,513
Current employees -	
Accumulated employee contributions including allocated investment income	467,405
Employer Financed	<u>6,226,310</u>
 Total Actuarial Accrued Liability	 8,749,894

Net Assets Available for Benefits at Actuarial Value  
(Market Value is \$7,988,421)

8,183,859

Unfunded (Overfunded) Actuarial Accrued Liability

\$ 566,035

GASB 27 INFORMATION (as of 12/31/04)

Fiscal Year Beginning	October 1, 2006
Annual Required Contribution (ARC)	\$ 383,484
Amortization Factor Used - Underfunded liabilities	
(30 years)	0.053632
- Underfunded liabilities	
(26 years)	0.058519
- Underfunded liabilities	
(24 years)	0.061616
- Underfunded liabilities	
(30 years level\$)	0.085453
- Overfunded liabilities	
(10 years)	0.119963

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - RETIREMENT PLAN (continued)

C. Contributions Required and Contributions Made - The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages of recent years.

<u>Valuation Date</u> <u>December 31</u>	<u>Fiscal year</u> <u>September 30</u>	<u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>Percent</u> <u>Contributed</u>
2000	2003	\$ 276,077	100%
2001	2004	213,288	100%
2002	2005	334,552	100%

Notes: Actuarial assumptions were revised for MERS valuations in 1997.

D. Schedule of Funding Progress -

	(a)	(b)	(b-a) Unfunded (over- funded)	(a/b)	(c)	[(b-a)/c] UAL as a Percentage of Covered
<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Entry Age</u> <u>Accrued</u> <u>Liability</u>	<u>Accrued</u> <u>Liability</u> <u>(UAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>Payroll</u>
2000	\$5,193,990	\$4,887,226	\$(306,764)	106%	\$3,402,645	0%
2001	5,992,397	5,523,753	(468,644)	108%	3,938,706	0%
2002	6,294,574	6,457,352	162,778	97%	3,938,735	4%
2003	7,253,615	7,851,278	597,663	92%	3,555,859	17%
2004	8,183,859	8,749,894	566,035	94%	3,205,061	18%

Notes: Actuarial assumptions were revised for the 1997 actuarial valuation.

The employer portion of the contribution for the fiscal year ended September 30, 2005 was \$334,552.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE I - DUE TO GOVERNMENTAL AGENCIES - STATE

Detail of the "Due to governmental agencies - state" at September 30, 2005 is as follows:

Inpatient services performed for clients at State Mental Care Facilities	TOTAL	<u>\$ 138,426</u>
-----------------------------------------------------------------------------	-------	-------------------

NOTE J - NOTES PAYABLE

The detail of notes payable as of September 30, 2005 is as follows:

Construction note payable to North Country Bank and Trust.  
Original approved amount is \$4,000,000. The note is payable in  
monthly installments of \$19,661, including interest calculated at  
6.0%. A balloon payment is due on September 5, 2018. This loan  
is secured by land and buildings. \$3,168,121

Note payable to Schoolcraft County. Original loan amount of \$480,000.  
The note is payable in annual installments of \$70,000 including  
interest. This loan matures in 2015 and is secured by a building. 417,948

\$3,586,069

The activity in notes payable is as follows:

	Balance <u>10/01/04</u>	Additions	Reductions	Balance <u>09/30/05</u>	Amount Due Within <u>One Year</u>
Construction note	\$3,208,892	\$ -	\$ 40,771	\$3,168,121	\$ 47,131
Vehicle note	1,572	-	1,572	-	-
County note	<u>436,161</u>	-	<u>18,213</u>	<u>417,948</u>	<u>20,375</u>
	<u>\$3,646,625</u>	<u>\$ -</u>	<u>\$ 60,556</u>	<u>\$3,586,069</u>	<u>\$ 67,506</u>

Current maturities on the notes payable are as follows:

Fiscal year ended <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 67,506	\$ 238,430	\$ 305,936
2007	72,832	233,104	305,936
2008	78,625	227,311	305,936
2009	84,929	221,007	305,936
2010	91,795	214,141	305,936
2011-2015	585,826	943,852	1,529,678
2016-2018	<u>2,604,556</u>	<u>441,796</u>	<u>3,046,352</u>
	<u>\$ 3,586,069</u>	<u>\$2,519,641</u>	<u>\$6,105,710</u>



## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

## NOTE K - LEASE COMMITMENTS

(1) The Authority leases a building for use by Emerald Ice which utilizes client labor. The lease calls for payments of \$400 per month and runs through December 31, 2005. The Authority has the option to purchase the property during the period of the lease agreement.

(2) The Authority leases the Germfask Community Building for its Prime-time Day Program for \$400 per month. This lease expires on September 30, 2006.

Minimum future lease commitments are as follows:

<u>Fiscal Ended</u>	<u>Amount</u>
9-30-06	\$ <u>6,000</u>

## NOTE L - COMPENSATED ABSENCES

All employees of the Authority are entitled to accrue vacation and sick pay. Vacation time is accrued at the following rates:

<u>Years of Service</u>	<u>Vacation Earned</u>	<u>Accrual rate</u>
0-1	2 weeks	1 hour per 26 hours paid
2-4	2.4 weeks	1.2 hours per 26 hours paid
5-9	3 weeks	1.5 hours per 26 hours paid
10-14	4 weeks	2 hours per 26 hours paid
15+	5 weeks	2.5 hours per 26 hours paid

No annual leave shall be accumulated over 200 hours. Vacation time accumulated in excess of 200 hours is paid to the employee, at their current rate of pay, twice a year on the first pay date in June and December. Upon separation of employment an employee shall be paid at their current rate of pay, for all unused annual leave.

Sick leave is accumulated at a rate of 1.25 hours for every 40 straight time hours paid. Sick leave may be accumulated to a maximum of 200 hours. Upon separation of employment an employee with a minimum of ten (10) years of service shall be paid, at their current rate of pay, for 50% of their unused sick leave.

The total accrued sick and vacation at year-end as reported in the Internal Service Fund was \$322,751. This is reported both as a liability and as restricted cash.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE M - CONTINGENT LIABILITIES**

The Authority participates in State and Federal assisted programs which are subject to financial and compliance audits. The disbursement of funds received under these programs generally requires compliance with specific terms and conditions and is subject to audit by the State or Federal government. Should such an audit occur, certain costs could be disallowed and requested back by the State or Federal government. As of the date of this audit report the Authority was aware of no such liability.

Risk Management - The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Authority joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The Authority pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$25,000 for each insured event.

The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

**NOTE N - BUDGET VIOLATION**

During the current fiscal year the actual expenditures of the Authority exceeded the budgeted amounts by \$672,170 for the General Fund.

REQUIRED SUPPLEMENTAL INFORMATION

# HIAWATHA COMMUNITY BEHAVIORIAL HEALTH AUTHORITY

## GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended September 30, 2005

	Budget			Variance with final budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
Federal revenue:				
Block grants	\$ 184,000	\$ 184,000	\$ 177,240	\$ ( 6,760)
OBRA	57,600	73,600	70,052	( 3,548)
State grants:				
Department of Community				
Health	2,182,257	2,303,557	2,472,430	168,873
Substance abuse	25,000	25,000	25,000	-
MRS	2,000	500	1,669	1,169
Adult benefit waiver	205,000	143,000	140,985	(2,015)
Other	15,200	14,000	43,819	29,819
County appropriations	287,000	287,000	287,234	234
Charges for services:				
Medicaid	11,140,277	11,058,243	11,357,765	299,522
Medicaid CMWII	182,000	182,000	181,683	(317)
Medicare	35,000	35,000	82,455	47,455
Third party insurance	45,000	45,000	87,373	42,373
Client fees - social				
security	220,000	220,000	228,147	8,147
Private pay	8,000	1,000	7,351	6,351
Inter county billing	-	500	1,243	743
MI Child	12,000	11,000	10,826	(174)
Other earned contracts	30,000	10,000	8,992	(1,008)
Other:				
Contributions	5,000	4,000	3,373	(627)
Vocational	97,000	97,000	125,412	28,412
UPCAP	12,000	10,000	19,263	9,263
DD supported community				
living	110,000	104,000	117,755	13,755
Interest	50,000	62,000	55,855	(6,145)
Miscellaneous	3,500	5,000	16,868	11,868
TOTAL REVENUES	14,907,834	14,875,400	15,522,790	647,390
EXPENDITURES:				
Salaries and wages	\$ 5,366,630	\$ 5,400,000	\$ 5,437,414	\$ (37,414)
Health insurance	1,262,353	1,146,190	1,228,070	(81,880)
Life/disability insurance	93,490	93,490	89,690	3,800
Retirement	490,320	490,320	543,258	(52,938)
FICA	107,560	107,560	113,842	(6,282)
FICA alternative	302,975	302,975	303,935	(960)
Unemployment compensation	26,422	34,481	40,797	(6,316)
Personnel/fringe benefit expense	26,859	46,859	345	46,514
Board per diem	35,000	35,000	37,828	(2,828)
Board operations	16,800	16,800	24,435	(7,635)
Operating expenses	164,000	109,000	242,756	(133,756)
Postage expense	15,000	15,000	17,168	(2,168)
Psychiatrist	421,105	401,105	524,220	(123,115)
Client transportation	134,580	134,580	155,512	(20,932)
Professional services	398,895	398,895	364,421	34,474
Conferences	37,050	37,050	26,187	10,863
Maintenance	6,300	6,300	14,064	(7,764)
Legal and auditing	80,000	80,000	39,493	40,507
Staff travel	145,000	132,000	156,785	(24,785)

# HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

## GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended September 30, 2005

	Budget			Variance with final budget Favorable (Unfavorable)
	Original	Final	Actual	
Advertising	\$ 15,000	\$ 15,000	\$ 9,662	\$ 5,338
Insurance - worker's compensation	64,325	83,125	97,630	(14,505)
Insurance - liability & other	90,000	90,000	470	89,530
Utilities/telephone	312,500	325,000	346,053	(21,053)
Staff recruitment	20,000	10,000	11,602	(1,602)
Staff development/training	80,000	42,950	59,605	(16,655)
Staff recognition	4,500	4,500	2,854	1,646
Membership dues/subscriptions	36,000	36,000	29,787	6,213
Capital outlay	35,000	31,500	38,440	(6,940)
Respite services	120,740	120,740	94,660	26,080
Rent	9,600	9,600	10,976	(1,376)
Inpatient - DD			123,675	
MIA			675,617	
MIC	559,505	679,505	132,543	(252,330)
HCBW - Santiago			314,501	
Pleasant View			311,585	
Maple			331,466	
Woodview			307,794	
Cedar			326,797	
MIA Residential Type A:				
Chippewa			569,263	
Mackinac			1,850	
Schoolcraft			14,710	
NTI Day Program	2,372,255	2,419,805	482,966	(241,127)
Other program specific			135,111	
DD Residential Type A:				
Chippewa			199,532	
Mackinac			71,588	
Schoolcraft	681,370	681,370	85,863	189,276
Leasing expense	4,200	4,200	1,894	2,306
Clinical supplies	14,000	14,000	13,091	909
Rental of agency assets	925,000	912,000	988,166	(76,166)
Ancillary medical	18,000	18,000	50,889	(32,889)
Building expenses	120,400	95,400	58,152	37,248
Client emergency housing	2,000	2,000	988	1,012
Local match expense	243,100	243,100	243,128	(28)
Anti-stigma campaign	50,000	50,000	44,328	5,672
Miscellaneous	-	-	114	(114)
<b>TOTAL EXPENDITURES</b>	<b>14,907,834</b>	<b>14,875,400</b>	<b>15,547,570</b>	<b>(672,170)</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>-</b>	<b>-</b>	<b>(24,780)</b>	<b>(24,780)</b>
OTHER FINANCING SOURCES:				
Operating transfer in	-	-	183,138	183,138
<b>EXCESS REVENUES AND OTHER FINANCING SOURCES</b>	<b>-</b>	<b>-</b>	<b>158,358</b>	<b>158,358</b>
Fund balance, beginning of year	969,811	969,811	969,811	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 969,811</b>	<b>\$ 969,811</b>	<b>\$ 1,128,169</b>	<b>\$ 158,358</b>

OTHER SUPPLEMENTAL INFORMATION

# HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET ASSETS

For the year ended September 30, 2005

	Risk Retention Fund	Fixed Asset Replacement Fund	Compensated Absences Fund	Totals
<b>ASSETS:</b>				
Current assets:				
Cash and equivalents - Restricted	\$ -	\$ -	\$ 322,751	\$ 322,751
Cash and equivalents - Unrestricted	-	602,348	-	602,348
Due from other funds	5,185	-	-	5,185
<b>TOTAL CURRENT ASSETS</b>	<u>5,185</u>	<u>602,348</u>	<u>322,751</u>	<u>930,284</u>
Fixed assets, net of accumulated depreciation of \$2,156,166.				
	-	6,425,461	-	6,425,461
<b>TOTAL ASSETS</b>	<u>\$ 5,185</u>	<u>\$ 7,027,809</u>	<u>\$ 322,751</u>	<u>\$ 7,355,745</u>
<b>LIABILITIES AND NET ASSETS:</b>				
Current liabilities:				
Current maturities on notes payable	\$ -	\$ 67,506	\$ -	\$ 67,506
Due to General Fund	-	277,229	-	277,229
<b>TOTAL CURRENT LIABILITIES</b>	<u>-</u>	<u>344,735</u>	<u>-</u>	<u>344,735</u>
Long-term liabilities:				
Compensated absences	-	-	322,751	322,751
Notes payable	-	3,586,069	-	3,586,069
Less: Current maturities	-	(67,506)	-	(67,506)
<b>NET LONG-TERM LIABILITIES</b>	<u>-</u>	<u>3,518,563</u>	<u>322,751</u>	<u>3,841,314</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>3,863,298</u>	<u>322,751</u>	<u>4,186,049</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ -	\$ 2,839,392	\$ -	\$ 2,839,392
Unrestricted	5,185	325,119	-	330,304
<b>TOTAL NET ASSETS</b>	<u>5,185</u>	<u>3,164,511</u>	<u>-</u>	<u>3,169,696</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,185</u>	<u>\$ 7,027,809</u>	<u>\$ 322,751</u>	<u>\$ 7,355,745</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS**

For the year ended September 30, 2005

	<u>Risk Retention Fund</u>	<u>Fixed Asset Replacement Fund</u>	<u>Compensated Absences Fund</u>	<u>Totals</u>
OPERATING REVENUES:				
Asset rental	\$ -	\$ 988,166	\$ -	\$ 988,166
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>-</u>	<u>988,166</u>	<u>-</u>	<u>988,166</u>
OPERATING EXPENSES:				
Building repairs and maintenance	-	87,530	-	87,530
Building supplies	-	5,852	-	5,852
Vehicle repairs and maintenance	-	39,681	-	39,681
Vehicle operating expenses	-	61,497	-	61,497
Insurance	-	89,343	-	89,343
Equipment repairs and maintenance	-	45,916	-	45,916
Provision for depreciation	-	434,419	-	434,419
Miscellaneous	<u>-</u>	<u>972</u>	<u>-</u>	<u>972</u>
TOTAL OPERATING EXPENSES	<u>-</u>	<u>765,210</u>	<u>-</u>	<u>765,210</u>
OPERATING INCOME (LOSS)	<u>-</u>	<u>222,956</u>	<u>-</u>	<u>222,956</u>
NON-OPERATING REVENUES (EXPENSES):				
Reimbursements	-	14,879	-	14,879
Interest income	6,375	20,001	-	26,376
Interest expense	-	(246,952)	-	(246,952)
Transfer to NorthCare	(739,933)	-	-	(739,933)
Transfer to General Fund	<u>(183,138)</u>	<u>-</u>	<u>-</u>	<u>(183,138)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(916,696)</u>	<u>(212,072)</u>	<u>-</u>	<u>(1,128,768)</u>
NET INCOME (LOSS)	(916,696)	10,884	-	(905,812)
Net assets, beginning of year	<u>921,881</u>	<u>3,153,627</u>	<u>-</u>	<u>4,075,508</u>
NET ASSETS, END OF YEAR	<u>\$ 5,185</u>	<u>\$ 3,164,511</u>	<u>\$ -</u>	<u>\$ 3,169,696</u>

See accompanying notes to financial statements.



HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS**

For the year ended September 30, 2005

	<u>Risk Retention Fund</u>	<u>Fixed Asset Replacement Fund</u>	<u>Compensated Absences Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received for rent and services	\$ 341	\$ 1,265,395	\$ -	\$ 1,265,736
Cash payments to suppliers for goods and services	<u>-</u>	<u>(330,791)</u>	<u>-</u>	<u>(330,791)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>341</u>	<u>934,604</u>	<u>-</u>	<u>934,945</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer to General Fund	(183,138)	-	-	(183,138)
Transfer to NorthCare	<u>(739,933)</u>	<u>-</u>	<u>-</u>	<u>(739,933)</u>
NET CASH USED BY NON-CAPITAL FINANCING ACTIVITIES	<u>(923,071)</u>	<u>-</u>	<u>-</u>	<u>(923,071)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Loan payments	-	(307,508)	-	(307,508)
Acquisition and construction of capital assets	-	(236,430)		(236,430)
Capital reimbursement received	<u>-</u>	<u>14,879</u>	<u>-</u>	<u>14,879</u>
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(529,059)</u>	<u>-</u>	<u>(529,059)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest earned	<u>6,375</u>	<u>20,001</u>	<u>-</u>	<u>26,376</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(916,355)	425,546	-	(490,809)
Cash and equivalents, beginning of year	<u>916,355</u>	<u>176,802</u>	<u>322,751</u>	<u>1,415,908</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ 602,348</u>	<u>\$ 322,751</u>	<u>\$ 925,099</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ -	\$ 222,956	\$ -	\$ 222,956
Depreciation	-	434,419		434,419
(Increase) decrease in interfund receivable	341	-	-	341
Increase (decrease) in interfund payable	<u>-</u>	<u>277,229</u>	<u>-</u>	<u>277,229</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 341</u>	<u>\$ 934,604</u>	<u>\$ -</u>	<u>\$ 934,945</u>

See accompanying notes to financial statements.



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA  
Sarah Peloza, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Hiawatha Community Behavioral Health Authority  
Manistique, Michigan 49854

We have audited the accompany financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Hiawatha Community Behavioral Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Board of Directors  
Hiawatha Community Behavioral Health Authority

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority, in a separate letter dated December 16, 2005.

This report is intended solely for the information and use of the board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

December 16, 2005



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
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Christina A. Smigowski, CPA  
Sarah Peloza, CPA

**REPORT TO MANAGEMENT**

Hiawatha Community Behavioral Health Authority  
Manistique, Michigan 49854

We have audited the financial statements of the Hiawatha Community Behavioral Health Authority for the year ended September 30, 2005, and have issued our reports thereon dated December 16, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Hiawatha Community Behavioral Health Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

**Significant Accounting Policies**

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Hiawatha Community Behavioral Health Authority are described in Note A of the financial statements.

Board of Directors  
Hiawatha Community Behavioral Health Authority

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Hiawatha Community Behavioral Health Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Useful lives on fixed assets are estimates. They were determined based on historical data with respect to the operating lives of the respective asset.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hiawatha Community Behavioral Health Authority or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year

Board of Directors  
Hiawatha Community Behavioral Health Authority

prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the financial statements of the Hiawatha Community Behavioral Health Authority, for the year ended September 30, 2005, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 16, 2005, on the financial statements of the Hiawatha Community Behavioral Health Authority

We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Board and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.A.C.*

Certified Public Accountants

December 16, 2005

# HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

## COMMENTS AND RECOMMENDATIONS

September 30, 2005

### BUDGET VIOLATION

During the fiscal year the actual expenditures of the Authority exceeded the budgeted amounts by \$672,170 for the General Fund.

### SUBCONTRACT VS. EMPLOYEE LABOR

Presently there is not consistent treatment as to whether an individual is treated as an employee or a subcontractor. We recommend that management take a careful look at any individual who is classified as a subcontractor to be certain that they are indeed classified correctly or should be treated as an employee.

### MEAL REIMBURSEMENT

Presently the Authority will pay a partial per-diem, by meal, for people who do not spend the night away from home on Authority business. While reimbursing, or paying directly for, a meal is allowable, as long as there was a business purpose for the meal, an accountable plan requires actual receipt documentation for tax-free reimbursement. We recommend that the Board adjust the meal reimbursement policy to allow for the proper documentation on reimbursements of meal expenses when an overnight stay is not involved.

### INTERNAL SERVICE FUNDS

Presently both the internal service fund and the general fund are recorded in the same general ledger. To allow for easier fund analysis we recommend that the internal service funds be recorded in a separate general ledger. If this is not practical we would recommend that the internal service fund portion of the general ledger be reconciled on a monthly basis to be certain that it balances as a stand-alone fund.